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**PROFESSIONAL FORESTERS**

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# News for Family Forests June 2019



Log prices remain flat, with some mills essentially off the market for the time being. Look for prices to come up some in the fall as buyers build inventory for the winter. Now's the time to order seedlings for planting

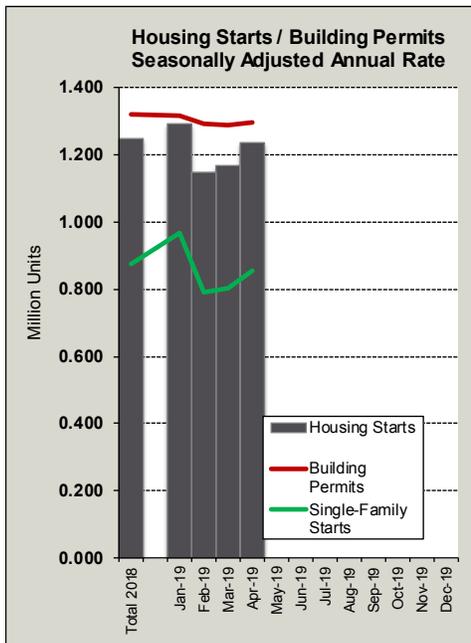


Woodland Client – Polk County

next winter/spring. Don't wait until it's planting season to procure seedlings or line up a consultant or contractor. Whether planning a harvest, reforestation, or other forest management activity, the more lead time the better, as everyone's very busy with a lot of work on the books.

If you want to plan a timber harvest or other forest operation, please give me a call at (503) 654-2221 or send me an email at [bkeller@woodlandmgmt.com](mailto:bkeller@woodlandmgmt.com). In addition to timber harvests, Woodland offers a variety of services—including reforestation, timber cruising, management plans, competition control in plantations, forestland valuations, and road maintenance. - Brent

## MARKET WATCH: HOUSING, LUMBER AND LOGS



### HOUSING STARTS

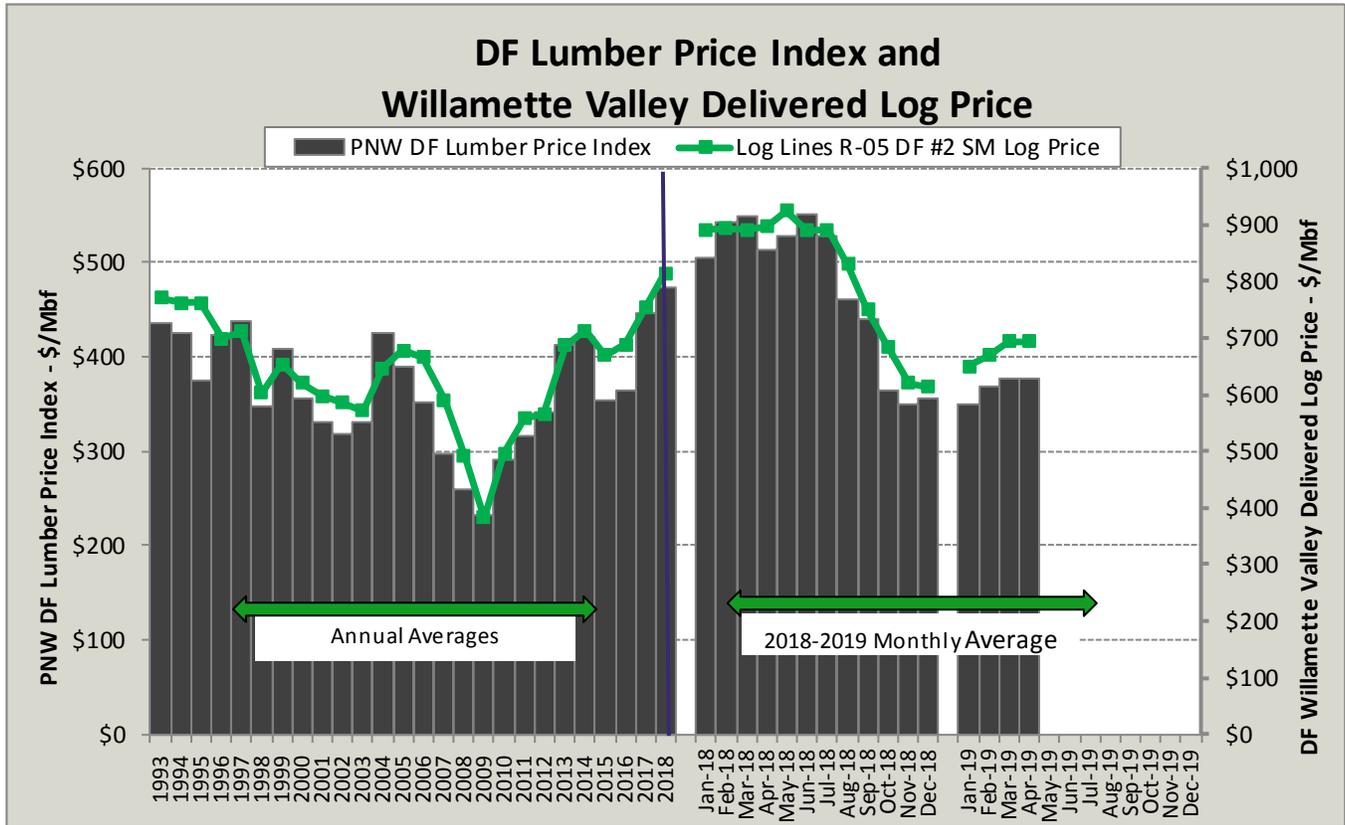
April was a positive month for U.S. housing starts. Starts increased 5.7% in April, and single-family starts were up 6.2%. But April 2019 was still 2.5% below April 2018, and analysts seem hesitant to put much weight on April's showing.

April 2019 Housing Starts (million units, seasonally adjusted):					
	Apr 2019	Mar 2019	Monthly Difference	Apr 2018	Annual Difference
All Starts	1.235	1.168	5.7%	1.267	-2.5%
Single-Family Starts	0.854	0.804	6.2%	0.892	-4.3%
Building Permits	1.296	1.288	0.6%	1.364	-5.0%
Single-Family Building Permits	0.782	0.816	-4.2%	0.863	-9.4%

Source: U.S. Census Bureau



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## LUMBER & LOGS

DF log and lumber prices flattened in April, as shown above and in Attachment 3. We may have seen the bottom of the cycle, but the upside hasn't yet amounted to much. At \$694/Mbf, log prices are just above the 2016 average, which is still good, just not great yet. [Note that lumber and log prices are on different scales in the chart.]

- April DF #2S log prices, as reported by Log Lines, remained unchanged at \$694/Mbf which is 22.6% below April 2018, and 4.7% below the 5-year average.
- At \$378/Mbf, the DF lumber index price for April increased 0.3% from March 2019, which is 26.4% below April 2018, and 7.5% below the 5-year average.

### April 2019 Douglas-fir Prices:

	Apr 2019	Mar 2019	Change from Previous Month	Apr 2018	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 694	\$ 694	0.0%	\$ 897	-22.6%	\$ 728	-4.7%
Lumber	\$ 378	\$ 377	0.3%	\$ 514	-26.4%	\$ 409	-7.5%

Sources: Log Lines Willamette Valley DF #2S monthly average price & WWSA Pacific NW Coast Douglas-Fir monthly

## MARKET NEWS

### Housing Sentiment

Fannie Mae's 2019 Home Purchase Sentiment Index (HPSI) decreased in April by 1.5 points below March, to 88.3. The HPSI is down 3.4 points compared with April 2018. "Households remain upbeat about economic activity but have more mixed attitudes toward the housing market," said Doug Duncan, Senior Vice President and Chief Economist at Fannie Mae. Current expectations are for income gains and softening growth in home prices. These should support housing demand. However, there is also the expectation that mortgage rates will continue to ease and that would reduce the urgency to buy. (Fannie Mae, 5/7/19)

### Housing Stats

As many analysts expected, U.S. housing starts rebounded in April. As the following chart indicates, month-to-month single family homes starts increased at a better rate than multi-family homes. Further, most of the gains were evidenced in the Northeast and the Midwest, with decreases in the South and West. RL also reported that builder confidence rose three points in April, to 66. That was the highest reading since Fall of 2018. (Random Lengths, 5/17/19)

U.S. Housing Starts and Building Permits					
(1,000s of Units, Seasonally Adjusted Annual Rates)					
	Apr 2019	Mar 2019	Apr 2018	% Chg. Prev. Mo.	% Chg. Yr. Ago
Total Starts	1,235	1,168	1,267	+5.7	-2.5
Single-Family	854	804	892	+6.2	-4.3
Multifamily	381	364	375	+4.7	+1.6
Northeast	144	78	97	+84.6	+48.5
Midwest	186	131	159	+42.0	+17.0
South	581	616	662	-5.7	-12.2
West	324	343	349	-5.5	-7.2
Total Permits	1,296	1,288	1,364	+0.6	-5.0

Source: Census Bureau

### Can builders catch-up?

Adverse weather has played a role in poor housing activity this Spring. In previous years, builders play catch-up when the weather improves. This year, however, labor shortages may limit that strategy. A 2019 construction outlet survey by the Associated General Contractors of America found that 79% of construction firms plan to hire more workers in 2019 but that 78% of firms reported difficulty filling some or all of their available positions. An NAHB poll found that 82% of builders identified labor shortages as their top challenge for 2019. This is especially worrisome to mills and lumber traders that report growing inventories of lumber available. (RL, 4/5/19)

### Oregon Passes Business Tax Package

Oregon recently passed a new 0.57 percent tax on Oregon businesses that have gross receipts above \$1 million. It is estimated that the tax will generate an estimated \$1.4 billion per year for public education. Opponents have argued the bill will harm small businesses and vulnerable Oregonians. They also say the money could be diverted to the public employee pension fund, rather than into the classrooms. Opponents have 90 days from the end of the legislative session to collect 74,680 signatures from Oregon voters to get the bill referred to the ballot. (Portland Business Journal, 5/16/19)

## Lumber Track

Western mill production shows a month-to-month increase of 7.3% in March 2019, with a year-over-year decrease of -3.5% YTD for the first three months of 2019. Production capacity remained strong in March, at 80%, even stronger at coastal mills, at 84%. (Western Lumber Facts, 5/3/19)

## Oregon Returns to Pre-Trump Environmental Standards

In an effort to undo the easing of environmental regulations on air and water quality enacted by the Trump administration, the Oregon legislature recently passed regulations to require the Oregon Department of Environmental Quality and Oregon Health Authority to assess changes to three federal policies: the Clean Air Act, Water Pollution Control Act and Safe Drinking Water Act. If these agencies determine that changes have been “significantly less protective” to public health or the environment than the regulations in place on Jan. 19, 2017 — the day before Trump took office — they would be required to meet the previous standards. Governor Brown championed this legislation and was happy to sign it. Brown has also encouraged other western states to adopt similar policy. According to The New York Times, the Trump administration has taken action to eliminate nearly 80 environmental regulations. (Jefferson Public Radio, 5/14/19 & Oregon.gov, 5/22/19)

## Five Areas of Oregon Have Worst Air in the Nation in 2018

Last summer the air quality in the West was negatively affected by wildfires from the record-breaking fire season. As a result, the cities with the worst air quality in the nation were largely in the West. Of the top 25 most polluted cities in 2018, Medford and Grants Pass tied for 17th, Bend was 22nd, and Portland and Salem tied with Vancouver Washington for 23rd. The American Lung Association also reported that Medford’s average level of fine air particulates put them in the top 10 for the worst air quality on an annual basis. (American Lung Association, 4/24/19)

## ODF Prepares for Fire Season

Oregon’s fire season officially starts June 1st and ODF is prepared for it. Some Oregon counties have already received red flag warnings to discourage the burning of yard debris. They are preparing to staff about 10 look out towers in the summer months and have fire detection cameras strategically placed on mountain tops and unmanned fire lookout towers. The cameras can be monitored 24 hours per day, 7 days per week. The cameras have already detected several small human-caused fires. These were detected much sooner than what would have been expected without the cameras. (KTVL, 5/9/19)

Western U.S. Softwood Lumber Production 2019 Year-to-Date Total (Bbf)		Western U.S. Softwood Lumber Production Monthly Total (Bbf)	
03-2019 YTD Production	3.533	Mar 2019	1.173
03-2018 YTD Production	3.663	43497	1.093
Change from Previous Year	-3.5%	Change from Previous Month	7.3%
		Mar 2018	1.256
		Change from Previous Year	-6.6%
2019 YTD Production as a % of Capacity	80%	Production as a % of Capacity Mar 2019	80%
2018 YTD Production as a % of Capacity	82%	Production as a % of Capacity Feb 2019	78%
Change from Previous Year	-2%	Change from Previous Month	2%

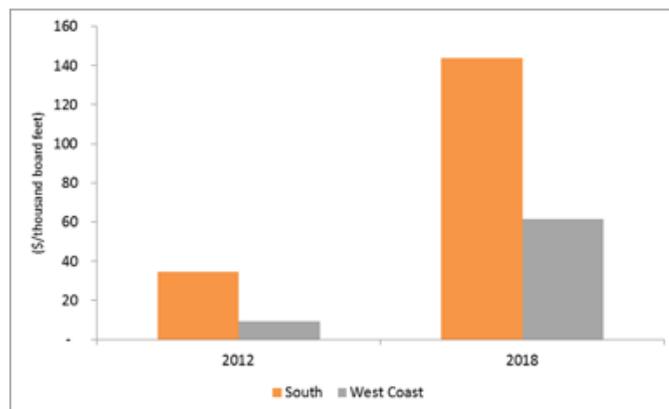
Western Lumber Facts

## **Sawmill Margins: South vs. West**

Southern U.S. sawmills survived the Great Recession by investing in new technology to improve efficiency and to lower costs. At the same time, due to low log prices, forest owners reduced their harvests, opting to wait-out the down cycle. However, their trees continued to grow, and the more efficient mills required fewer trees. This situation has kept log prices very low in the South. It is reported that at present, only Brazil offers lower delivered log prices. Combine low log prices, improved mill efficiencies, high lumber prices due to fewer Canadian imports, a few intense wildfire seasons, and southern mills are enjoying hefty profits.

In contrast, while demand for PNW sawlogs remains strong, constrained supply keeps log prices high and makes it a challenge for sawmills to be profitable. The region is supplied primarily from private lands, which have limits on annual production. Though plenty of timber supply exists on public lands, harvests from these lands remain well below sustainable levels. This limits sawmill expansions and caps residual production to a finite volume. Constrained supply limits growth opportunities and keeps log and fiber prices elevated. Even with increased lumber prices, the PNW mills find profitability difficult, which has led to mill closures and capacity reductions. (Forest2Market, 4/15/19)

Sawmill Margins by Region



## **Carbon Credit from Urban Forests**

In May, a county in Washington State announced that it had developed and sold the first city forest preservation carbon credits in the world. The buyer was a King County-based fishing company that had recently commissioned the first “green” fishing vessel in the Bering Sea fishery. The credits were issued by City Forest Credits, a Seattle-based non-profit organization that American Forests is working with nationwide to generate new funding for city trees through carbon credits and sustainability certification. (American Forests, 5/14/19)

## **Study: Wildfires Causing Early Snowmelt in Forests Across West Coast**

Researchers at Portland State University have found that forest fires are accelerating seasonal snowmelt in roughly a tenth of all forests across the western U.S. This not only impacts water supply, but also increases the severity of forest fires as we accelerate towards a warmer and drier climate. The burnt canopies caused by recent forest fires are letting in more sunlight to melt snow underneath, and the soot mixed with snow on the ground is absorbing more heat. They theorize a vicious cycle of accelerating snowmelt and forest fires that will continue to build in intensity. (KATU, 5/6/19)

## **Economic Impact of Privately-Owned Forests**

About 40% of Oregon's forests are privately owned and they have a significant impact on the state's economy. The National Alliance of Forest Owners published the following graphics to illustrate the importance of privately managed forests. (National Alliance of Forest Owners, 5/2/19)



## **Linn Lawsuit Looks to Mediation**

The Linn County Lawsuit is heading to a mediation session in June. Judge Delsman outlined the procedures during a settlement conference in May. Each side is to propose three mediators to the other by May 13; the parties are to choose two mediators from the group of 6 by May 17; the parties will enter into standard form mediation agreements with the mediators and among one another; the mediators will conduct one or two preliminary joint sessions prior to exchange of offers; plaintiffs will propose an offer to settle the case by June 10; the state will propose a counteroffer by June 17; and the mediators will conduct further sessions as necessary to discuss the offers and determine whether a settlement is possible. (Albany Democrat, & Lebanon Express, 5/10/19)

## **Fooling the Beetles**

In an effort to reduce damaging Douglas-fir beetles, scientists have developed beetle deterring pheromones. Described as smelling like a combination of tires and syrup, the pheromones are said to mimic the natural scent beetles use to communicate to each other when a tree is already infested so there is no need for more beetles to be interested in it. Pungent pheromone packets are being stapled to 100s of trees in Colorado to test the effectiveness of the pheromones. (Plaindealer, 5/10/19)

## **U.S. Hardwood Lumber Hit Hard by Chinese Trade War**

About 50% of the U.S. high-value hardwood lumber is exported to China. China has been the top purchaser of red oak since it lost favor in the U.S. in the 1990s. In 2017, over 32,000 shipping containers of red oak were exported to China. When tariffs were threatened in mid-2018, the price of red oak fell 25%. Since a 10% tariff was placed on red oak lumber in September 2018, mills had to sell below cost and some couldn't sell it at all. The situation has not improved and some mills are expected to close in 2019 as a result. (The Inter-Mountain, 5/18/19)

## **The Elliott State Forest Still in Limbo with More Questions than Answers**

It's been six months since Oregon State University (OSU) was chosen by the Oregon State Land Board to take over management of the controversy-plagued Elliott State Forest. At the time, the Land Board directed the Department of State Lands to take a year to work with OSU officials to form a detailed plan. The plan must include details to keep the forest publicly owned, maintain public access, decouple the forest from the Common School Fund by compensating the fund for the value of the forest (\$120.8 million), release the forest from its obligation to generate revenue for schools, develop a habitat conservation plan that would protect sensitive species while allowing for continued timber harvest, and provide for multiple uses— to include recreation, education and forest research. The Corvallis Gazette-Times reports that as we near the halfway point of that process, the notion of transferring the Elliott to OSU is anything but a done deal. The school is still trying to answer many questions about the opportunity.

- Where will they get the \$120.8 million? “I’ve tried to be really clear with people: We don’t even have 0.8 million right now,” said Anthony Davis, acting dean of the College of Forestry.
- Can they harvest enough timber to pay for the management expense and reimburse the School Fund?
- How much income could come from carbon offset credits?
- What about the expense of road maintenance?
- Can they afford the liability of recreational use on the forest?

Currently, OSU has requested a feasibility analysis of the Elliott’s capacity for carbon sequestration and the potential value of that capacity in carbon credits market.

Of course, even if OSU can find a way to accept the research forest, there are critics to the plan. Rex Storm, Forest Policy Manager for Associated Oregon Loggers, thinks the state should keep the forest, rather than issuing bonds and soliciting payment from OSU to decouple the Elliott from the Common School Fund. “Why would one Oregon public entity pay for something taxpayers already own?” he asked. Storm calls it a shell game at the expense of Oregon school children.

Storm commented, “The Common School Fund is currently valued at about \$1.6 billion, and adding \$220.8 million to the fund’s corpus would no doubt allow for increased investment returns...But would the additional return on investment exceed what the Elliott could produce if the state retained ownership and pursued a more aggressive harvest policy?” (Corvallis Gazette-Times, 5/19/19)

## **New homes are smaller**

Random Lengths reports that the median home size fell again in 2018 to 2,354 square feet of floor area. That’s down from 2,385 sf in 2017, 2,557 sf feet in 2016, and 2,557 sf feet in 2015 – the post-recession high. The low point was 2009 at 2,135 sf. The National Association of Homebuilders views falling home size as a precursor to a recession. (RL, 3/22/19)

## **Cap & Trade Concerns**

The Oregon legislature is still working to finalize cap & trade legislation (HB 2020). There is plenty of support and opposition to their work, with both sides pointing to California as an example to prove their opposing positions.

Supporters point to cap & trade as a way of reducing emissions, raising revenues to support clean energy and innovation to make Oregon “a preferred place to do business, improve public health and strengthen the resiliency of our economy.” (Oregonian Opinions, 4/26/10 & 5/13/19)

Perhaps the most compelling recent report opposing cap & trade comes from Barbara Haya at UC Berkley. She is a researcher from their Center for Environmental Public Policy and reports that the Calif. cap & trade success has been over-estimated, and that it may have only accomplished 18% of the emissions reductions that have been claimed by the state. This is significant because other states are looking to duplicate the California program. At issue is California’s carbon offset protocol, an incentive program designed by the state to encourage forestland owners across the country to manage forests in ways that increase the amount of carbon stored in them.

Haya uses the term “leakage rate” to describe the problem. She asserts that the state is assuming that only 20% of the timber harvest reductions for cap & trade are being transferred to other forests not included in the cap & trade program, while the actual number may be closer to 80%. Haya supports this theory by looking at the demand for timber-derived products, and that demand is still strong, so the timber must continue to be harvested somewhere. As a result, greenhouse gas emissions are not falling as quickly as they should. Haya asserts that success should be measured on the net reduction in emissions actually created each year. (Berkeley News, 5/7/19)

An equally compelling news report came from PBS last July. It reports that the cap & trade program in California was intended to assist disadvantaged communities that are often located near industrial areas, by improving their air quality. However, because carbon credits can be purchased in areas far away from the source of the emissions, and often in other states, the air quality in many of these communities has actually gotten worse. PBS reported that 52% of companies regulated by the program saw an increase in annual average greenhouse gas emissions. The report suggested setting geographical limits on carbon offset trading would be most beneficial in accomplishing the state’s goals. (PBS, 7/15/18)

## **Oregon Fire Fighters Embrace the Drone**

Drones can sometimes get in underneath a wildfire smoke line that shuts out overhead aircraft and can send imagery of real-time fire data with infrared mapping. Many states are using this technology in fire response, but Oregon is using it the most. It has been reported that out of nearly 1,500 flights on federal fires in 2018, 715 were in the state of Oregon. (KTVL, 5/2/19)